

CITY OF EASTBOROUGH, KANSAS

**Financial Statements
December 31, 2010**

**with
Independent Auditors' Report**

CITY OF EASTBOROUGH, KANSAS

Financial Statements

December 31, 2010

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Eastborough, Kansas

We have audited the accompanying financial statements of the individual funds of the City of Eastborough, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the City's policy is to prepare its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of the State of Kansas which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash balances of each of the various funds of the City of Eastborough, Kansas, as of December 31, 2010, and the revenues received and expenditures paid of such funds for the year then ended on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the City Council and management of the City of Eastborough, Kansas and for filing with the Kansas Department of Administration, Division of Accounts and Reports and should not be used for any other purpose.

Peterson, Peterson & Goss, L.C.

October 5, 2011

CITY OF EASTBOROUGH, KANSAS
 Summary of Cash Receipts, Expenditures and Unencumbered Cash
 For The Year Ended December 31, 2010

<u>Funds</u>	<u>Beginning Unencumbered Cash Balance</u>	<u>Prior Year Cancelled Encumbrances</u>	<u>Cash Receipts</u>	<u>Expenditures</u>	<u>Ending Unencumbered Cash Balance</u>	<u>Add Outstanding Encumbrances</u>	<u>Ending Cash Balance</u>
Governmental Funds:							
General	\$ 679,967	\$ 2,504	\$ 984,441	\$ 1,000,689	\$ 666,223		\$ 666,223
Special Revenue:							
Employee Benefit	20,033		140,378	107,038	53,373		53,373
Capital Improvement	225,000		172,922	173,397	224,525		224,525
Special Highway	233,487		31,979	31,961	233,505		233,505
TRF - Street Fund	-		90,402	90,402	-		-
Total Reporting Entity	<u>\$ 1,158,487</u>	<u>\$ 2,504</u>	<u>\$ 1,420,122</u>	<u>\$ 1,403,487</u>	<u>\$ 1,177,626</u>	<u>\$ -</u>	<u>\$ 1,177,626</u>
Composition of cash:							
Checking account - Intrust Bank							\$ 60,452
Money market - Equity Bank							117,074
Petty cash							100
Certificates of Deposit							1,000,000
Total Reporting Entity							<u>\$ 1,177,626</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTBOROUGH, KANSAS
 Summary of Expenditures - Actual and Budget
 For The Year Ended December 31, 2010

Funds	Amended or Certified Budget	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
General	\$ 1,150,000	\$ 1,000,689	\$ 149,311
Special revenue:			
Employee Benefit	145,120	107,038	38,082
Capital Improvement	398,200	173,397	224,803
Special Highway	268,729	31,961	236,768

The notes to the financial statements are an integral part of this statement.

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 489,555	\$ 477,690	\$ (11,865)
Delinquent tax	-	19,826	19,826
Motor vehicle	56,260	56,468	208
Recreational vehicle	141	123	(18)
Intergovernmental:			
Local sales tax	146,240	180,261	34,021
Franchise fees	35,000	63,974	28,974
Fines	80,000	160,930	80,930
Interest on investments	-	17,834	17,834
Permits and other	-	6,652	6,652
Reimbursements	-	683	683
Total Cash Receipts	<u>807,196</u>	<u>984,441</u>	<u>177,245</u>
Expenditures:			
General administration:			
Personnel services	42,500	55,682	(13,182)
Contractual services	35,000	39,517	(4,517)
Commodities	4,000	4,048	(48)
Capital outlay	6,000	-	6,000
Street lights	17,500	16,686	814
Police department:			
Personnel services	330,000	297,385	32,615
Contractual services	35,000	41,387	(6,387)
Commodities	30,000	16,929	13,071
Capital outlay	30,995	16,292	14,703
Street department:			
Contractual services	94,943	33,844	61,099
Commodities	-	43	(43)
Parks:			
Contractual services	175,000	131,925	43,075
Commodities	5,000	3,529	1,471
Capital outlay	-	-	-

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Expenditures:			
(Continued)			
City Hall:			
Contractual services	\$ 30,000	\$ 16,023	\$ 13,977
Commodities		1,122	(1,122)
Capital outlay	-	8,075	(8,075)
Municipal court:			
Personnel services	30,000	28,977	1,023
Contractual services	2,000	241	1,759
Commodities	1,500	303	1,197
Mayor's discretionary fund	1,500	1,238	262
KDOT - TRF	49,637	51,168	(1,531)
Fire services	120,000	126,850	(6,850)
Transfer to Capital Improvement Fund	109,425	109,425	-
Total Expenditures	<u>1,150,000</u>	<u>1,000,689</u>	<u>149,311</u>
Receipts Over (Under) Expenditures	(342,804)	(16,248)	326,556
Unencumbered Cash, Beginning	342,804	679,967	337,163
Prior year cancelled encumbrances	<u>-</u>	<u>2,504</u>	<u>2,504</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 666,223</u>	<u>\$ 666,223</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Employee Benefit Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 125,647	\$ 122,607	\$ (3,040)
Motor vehicle	13,218	13,187	(31)
Delinquent tax	-	4,347	4,347
Recreational vehicle	33	29	(4)
Reimbursements	-	208	208
Total Cash Receipts	<u>138,898</u>	<u>140,378</u>	<u>1,480</u>
Expenditures:			
Employee benefits	<u>145,120</u>	<u>107,038</u>	<u>38,082</u>
Receipts Over (Under) Expenditures	(6,222)	33,340	39,562
Unencumbered Cash, Beginning	<u>6,222</u>	<u>20,033</u>	<u>13,811</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 53,373</u>	<u>\$ 53,373</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Capital Improvement Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Cash Receipts:			
Taxes:			
Ad valorem property	\$ 57,692	\$ 56,296	\$ (1,396)
Delinquent tax	-	1,305	1,305
Motor vehicle	6,068	5,883	(185)
Recreational vehicle	15	13	(2)
Transfer from General Fund	109,425	109,425	-
Total Cash Receipts	<u>173,200</u>	<u>172,922</u>	<u>(278)</u>
Expenditures:			
Capital improvements	<u>398,200</u>	<u>173,397</u>	<u>224,803</u>
Receipts Over (Under) Expenditures	(225,000)	(475)	224,525
Unencumbered Cash, Beginning	<u>225,000</u>	<u>225,000</u>	<u>-</u>
Unencumbered Cash, Ending	<u>\$ -</u>	<u>\$ 224,525</u>	<u>\$ 224,525</u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Special Highway Fund
For The Year Ended December 31, 2010

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Cash Receipts:			
State of Kansas	\$ 23,170	\$ 21,715	\$ (1,455)
City/county highway	11,400	10,264	(1,136)
Total Cash Receipts	<u>34,570</u>	<u>31,979</u>	<u>(2,591)</u>
Expenditures:			
Street repair and maintenance	<u>268,729</u>	<u>31,961</u>	<u>236,768</u>
Receipts Over (Under) Expenditures	(234,159)	18	234,177
Unencumbered Cash, Beginning	<u>234,159</u>	<u>233,487</u>	<u>(672)</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>	<u><u>\$ 233,505</u></u>	<u><u>\$ 233,505</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTBOROUGH, KANSAS
Statement of Cash Receipts and Expenditures - Actual
TRF - Street Fund
For The Year Ended December 31, 2010

	<u>Actual</u>
Cash Receipts:	
State of Kansas - Dept. of Transportation	\$ 90,402
Expenditures:	
Street repair and maintenance	<u>90,402</u>
Receipts Over (Under) Expenditures	-
Unencumbered Cash, Beginning	<u>-</u>
Unencumbered Cash, Ending	<u><u>\$ -</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2010

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Eastborough, Kansas (the City) is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who is responsible for their integrity and objectivity. These accounting policies conform to a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Reporting Entity

The City of Eastborough is a municipal corporation governed by an elected six-member council. These financial statements present the City of Eastborough (the primary government).

Basis of Presentation

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the City of Eastborough, Kansas for the year 2010:

Governmental Funds

General Fund - to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds - to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2010

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting

Statutory Basis of Accounting. The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

Departure from Generally Accepted Accounting Principles

The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. General fixed assets that account for the land, infrastructure, buildings and equipment owned by the City are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes and compensated absences are not presented in the financial statements.

The City has approved a waiver from generally accepted accounting principles, allowed by the State of Kansas, which permits the municipality to use the statutory basis of accounting.

Subsequent Events

Subsequent events have been evaluated through October 5, 2011, which is the date the financial statements were available to be issued. Events requiring disclosure were identified and disclosed.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2010

2. Budget and Tax Cycle

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute) and debt service funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least 10 days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each budgeted fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year end.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2010

3. Deposits

At year-end the carrying amount of the City's deposits was \$1,177,626. The bank statement balances were \$1,207,863. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. Of the bank balance, \$250,000 was covered by FDIC insurance and the remaining amount was collateralized by pledged securities held under joint custody receipts issued by a third-party bank in the City's name. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the City, the pledging bank, and the independent third-party bank holding the pledged securities.

4. Defined Contribution Pension Plan

The City provides pension benefits for its employees through the City of Eastborough Retirement Plan (Plan) established June 1, 1993. The plan was restated January 1, 2009. The Plan is a defined contribution plan whereby benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate upon completing one year's service working a minimum of 1000 hours and having reached age 21. The City is required to contribute an amount equal to 7% of the employee's salary each month. The City's contributions for each eligible employee are invested in an annuity contract with The Principal Financial Group as directed by the participant. Participants are fully vested in their accounts credited with the City's contributions and allocated interest after six years of continuous service.

The City's pension plan contribution for 2010 was \$19,500.

5. Compliance with Kansas Statutes

The City was in violation of K.S.A. 9-1402 for securing the funds of public deposits. The City had Certificates of Deposit that were not adequately secured as interest was credited to the initial investment balance.

Management is aware of no other statutory violations for the year.

6. Risk Management

The City manages risks primarily through the purchase of insurance coverage from commercial insurers.

CITY OF EASTBOROUGH, KANSAS

Notes to Financial Statements

December 31, 2010

7. Interfund Transfers

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
General Fund	Capital Improvement Fund	K.S.A. 12-1,118	\$109,425

8. Capital Projects

The City approved Resolution No. 10-01 in May 2010 for the Woodlawn Heights Paving Improvements Project in the amount of \$800,000. Financing and construction will begin in spring 2011.

9. Long-Term Debt

Changes in long-term debt for the year ended December 31, 2010 along with current maturities of long-term debt and interest for the next five years and in five- year increments through maturity are as follows:

CITY OF EASTBOROUGH, KANSAS
Notes to Financial Statements
December 31, 2010

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
Revolving Loan Program:									
Transportation Revolving Fund TR-0042	3.65%	9/5/2006	\$ 224,308	8/1/2021	\$ 182,205	\$ -	\$ 13,558	\$ 168,647	\$ 7,106
Transportation Revolving Fund TR-0090	3.90%	10/28/2008	227,794	8/1/2018	137,391	90,402	23,680	204,113	6,824
Total Contractual Indebtedness					<u>\$ 319,596</u>	<u>\$ 90,402</u>	<u>\$ 37,238</u>	<u>\$ 372,760</u>	<u>\$ 13,930</u>

Schedule of Maturities of Contractual Indebtedness

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016-2020</u>	<u>2021-2025</u>	<u>Total</u>
Principal:								
Revolving loan program	\$ 36,120	\$ 37,584	\$ 39,108	\$ 40,693	\$ 42,342	\$ 176,608	\$ 305	\$ 372,760
Interest:								
Revolving loan program	\$ 15,048	\$ 13,584	\$ 12,061	\$ 10,476	\$ 8,827	\$ 18,223	\$ 12	\$ 78,231